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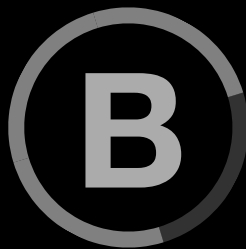
# A Crypto Fund King Says Bitcoin Will Be the Biggest Bubble Ever

By Erik Schatzker

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- ▶ He is said to aim to raise \$500 million after Fortress losses
  - ▶ 'Largest bubble of our lifetimes,' he says of digital currency
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## Novogratz Says Bitcoin Is a Bubble, But You Should Own It



Novogratz Says Bitcoin Is a Bubble

Mike Novogratz is reinventing himself as the king of bitcoin.

The swaggering macro manager who flamed out at Fortress Investment Group LLC is starting a \$500 million hedge fund to invest in cryptocurrencies, initial coin offerings and related companies. Novogratz will put up \$150 million of his own money and plans to raise \$350 million more by January, mainly from family offices, wealthy individuals and fellow hedge fund managers, said a person familiar with his plans.

At that size, the Galaxy Digital Assets Fund would be the biggest of its kind and signal a growing acceptance of cryptocurrencies such as bitcoin and ether as legitimate investments. For

Novogratz, 52, the fund marks a comeback to professional money management after humbling losses at Fortress and almost two years of self-imposed exile from Wall Street.

Novogratz, in an interview with Bloomberg Television, declined to confirm or deny that he's raising a fund, citing regulatory constraints. He did talk at length about his recent experience with digital assets and why he's eager to trade them.

"This is going to be the largest bubble of our lifetimes," Novogratz said. "Prices are going to get way ahead of where they should be. You can make a whole lot of money on the way up, and we plan on it."

## **'Trading Junkie'**

Just this month, bitcoin hit a record of almost \$5,000 then plunged 30 percent in two weeks as buyers weighed the impact of a Chinese ban on initial coin offerings and domestic trading in virtual currencies.

"I sold at \$5,000 or \$4,980," he said. "Then three weeks later I'm trying to buy it in the low \$3,000s. If you're good at that and you're a trading junkie, it's a lot of fun."



The fortunes being made and lost are just one reason Novogratz likens the cryptocurrency market to the Wild West. Digital assets like bitcoin need more regulation, and in the meantime some initial coin offerings, or ICOs, will prove to be fraudulent “get-rich-quick schemes,” he said.

While the technology community has embraced the libertarian ideal of a decentralized, open-source payment system in which a fixed money supply is determined by computer code, financiers are taking a more cautious approach. Only two other hedge funds have raised tens of millions of dollars to invest in digital assets, Polychain Capital and MetaStable Capital.

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Novogratz’s fund will have a broader mandate, including market-making, arbitrage, stakes in internet coin offerings and venture capital-style investments in digital-asset development, said the person familiar with his plans, who asked not to be named because they’re still private. He also brought on as partners two traders with years of experience in hedge fund investing and compliance: Richard Tavano, the former head of global arbitrage at RBC Capital Markets; and David Namdar, who worked at Millennium Partners, Marto Capital and UBS AG, the person said.

## **Bitcoin ‘Fraud’**

Most large institutions have steered clear of the cryptocurrency market out of skepticism about its legitimacy or concerns that the mostly unregulated instruments are too volatile. JPMorgan Chase & Co. Chief Executive Officer Jamie Dimon captured the prevailing view on Wall Street when earlier this month he called bitcoin a “fraud” and said he would fire anyone at his bank for trading it.

Where others see volatility and liability, Novogratz, a former Goldman Sachs Group Inc. partner, smells opportunity.

“In a lot of ways, this is a market like any other market,” Novogratz said. “You see the psychology of fear and greed in the charts the same way you’d see it in charts of the Indonesian rupiah or dollar-yen or Treasuries. They’re exaggerated because of less liquidity and because you can’t get short.”

Novogratz developed his taste for risk as a varsity wrestler at Princeton University and later as a National Guard helicopter pilot. He dabbled in bitcoin while still managing billions of dollars in a macro fund at Fortress, but didn’t score his first big win until after leaving the New York-based firm two years ago.

## Watch more: How macro trader Novogratz became a bitcoin convert

It started with a late-2015 visit to a friend's startup in Brooklyn.

"I expected to see Joe, a dog and one assistant. Instead I saw 30 dynamic young people crammed in a Bushwick warehouse, coding, talking on the phone, making plans for this revolution," Novogratz said. "Macro guys are instinctive. My instinct was, 'I want to buy a chunk of this company.'"

## **\$250 Million Haul**

He decided instead to invest in ether, the cryptocurrency token used on the Ethereum network. Novogratz bought about \$500,000 at less than a dollar per ether and left on a vacation to India. By the time he returned a few weeks later, the price had risen more than fivefold. He bought more.

Over the course of 2016 and into 2017, as ether surged to almost \$400 and bitcoin topped \$2,500, Novogratz sold enough to make about \$250 million, the biggest haul of any single trade in his career. He said he paid tax on the profits, bought a Gulfstream G550 jet and donated an equal amount to a philanthropic project for criminal justice reform.

Novogratz was hooked. Today, he hosts a weekly "crypto meet-up" for as many as 90 people over drinks at his office in Manhattan's SoHo district and waxes effusive about his adopted industry.

"Remember, bubbles happen around things that fundamentally change the way we live," he said. "The railroad bubble. Railroads really fundamentally changed the way we lived. The internet bubble changed the way we live. When I look forward five, 10 years, the possibilities really get your animal spirits going."

Novogratz, known to his friends as "Novo," estimates that he now has about 20 percent of his net worth in digital assets. In addition to cryptocurrencies, his family office has invested in bitcoin mining, trading platforms, initial coin offerings, pre-ICO sales and blockchain technology. He said Gemini, the exchange run by Cameron and Tyler Winklevoss, is "one of our go-to places" in part because it has a New York State license to trade bitcoin and ether.

With a \$500 million hedge fund, Novogratz will be able to capture trading opportunities that require more scale, as well as wield influence with developers, entrepreneurs and regulators. Of course, he'll also make money on other people's money: The person familiar with his fund, who

has seen early versions of marketing documents, said it will charge investors a 2 percent management fee and 20 percent of profits, with a two-year lockup.

Plus, he doesn’t like the idea of fading away.

“Everyone would love to leave Wall Street gracefully and very few do,” Novogratz said. “You get kicked in the knees or kicked in the midsection, you learn from your mistakes, you kind of rebuild and you start your new adventure.”

One thing hasn’t changed: Novo’s love of the risky bet.

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